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# FEDERAL ENERGY REGULATORY COMMISSION

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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE:

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### **COMMISSION ESTABLISHES OIL PIPELINE INDEX FOR FIVE-YEAR PERIOD, EFFECTIVE JULY 2006-JULY 2011**

The Federal Energy Regulatory Commission today established a new oil pipeline pricing index for a five-year period ending July 2011. The index is used to establish rate ceiling levels for oil pipeline rate changes.

After reviewing comments in response to a July 2005 Notice of Inquiry, the Commission has concluded an upward adjustment in the index is required to accurately track oil pipeline cost changes. The Commission determined that the Producer Price Index for Finished Goods plus 1.3 percent (PPI plus 1.3 percent) should be the oil pricing index for the five-year period beginning July 1, 2006. At the end of the index period in July 2011, the Commission will again review the index to determine whether it continues to measure adequately the cost changes in the oil pipeline industry.

Chairman Joseph T. Kelliher observed: "One of our national energy policy goals is strengthening the energy infrastructure. The experience of last year's hurricanes demonstrates the importance of a strong infrastructure. Today's order establishes an oil pipeline index which will support the maintenance and expansion of our nation's oil pipeline infrastructure."

The Commission initially established the indexing system in Order No. 561, effective January 1, 1995, to comply with mandates of the 1992 Energy Policy Act and the Interstate Commerce Act. In Order No. 561, the index was established as PPI minus 1 percent. For the first review period of 2001-2006, the Commission deviated from the methodology it had used in establishing the index as PPI minus 1 percent, but nonetheless concluded that the index should be retained as PPI minus 1 percent.

The alternative methodology was reviewed by the U.S. Court of Appeals for the D.C. Circuit, which remanded the matter to the Commission with a mandate to justify its departure from the original methodology.

On remand, the Commission concluded the most appropriate way to measure pipeline costs and rate ceilings was to apply the initial methodology, a decision upheld by the D.C. Circuit U.S. Court of Appeals. In today's order, the Commission has again applied its initial methodology to establish the index at PPI plus 1.3 percent for the next five-year period.

R-06-17

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